

Message Text

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PAGE 01 NEW DE 10583 091214Z

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ACTION NEA-16

INFO OCT-01 ISO-00 EB-11 COME-00 FEAE-00 TRSE-00 SCI-06

CIAE-00 INR-11 NSAE-00 RSC-01 L-03 OMB-01 SS-20 NSC-07

DRC-01 INT-08 CIEP-03 SP-03 /092 W

----- 018223

R 091045Z AUG 74

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 3180

INFO AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

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E.O. 11652: N/A

TAGS: BDIS, ENRG, IN

SUBJECT: CALTEX PROBLEMS IN INDIA

REF: STATE 161942

SUMMARY: F.H. LEVENHAGEN, CHIEF CALTEX REP IN INDIA, MET WITH AMBASSADOR ON AUGUST 7 AND GAVE EXCELLENT BRIEFING ON CURRENT CALTEX POSITION AND OUTLOOK. HE REVIEWED THE MEMORANDUM PRESENTED BY V.P. RYAN TO NEA/INS JULY 25 (REFTEL) AND PROVIDED US WITH AN AIDE MEMOIRE DATED AUGUST 7 AND A COPY OF A LETTER HANDED TO PETROLEUM MINISTRY SECRETARY, P.K. DAVE, AUGUST 5 (COPIES BEING POUCHED SEPARATELY TO NEA/INS). HE ALSO DESCRIBED INDECISIVE OUTCOME OF OIL COMPANY/PETROLEUM MINISTRY MEETING HELD ON AUGUST 7 TO DISCUSS IMPLEMENTATION OF A PRICE RELIEF MEASURE FOR THE INDUSTRY AND REITERATED THAT, FOR CALTEX, CONTINUING LOSSES DURING SECOND HALF OF CY 1974 MAY SUGGEST TERMINATION OF OPERATIONS IN INDIA. END SUMMARY.

1. LEVENHAGEN INFORMED THE AMBASSADOR THAT, WHILE HE IS DEEPLY CONCERNED OVER THE FINANCIAL OUTLOOK FOR HIS COMPANY IN INDIA, "MORE HOMEWORK" IS REQUIRED BEFORE ANY POSITIVE ACTION SHOULD
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PAGE 02 NEW DE 10583 091214Z

BETAKEN BY HIS FIRM THAT MAY LEAD TOWARD SEVERE CUTBACKS IN

CRUDE SUPPLIES, REFINERY CLOSURE OR "EVEN SALE OF ASSETS IN INDIA." HE CITED GRAVITY OF INCREASED BORROWINGS OVER PAST YEAR (TOTALING RS. 17.4 CRORES -- OR EQUIVALENT OF \$323.2 MILLION) AND STATED THAT ANY ACCUMULATION OF ADDITIONAL LIABILITIES MAY BE FINANCIALLY DIASTROUS FOR CALTEX. HE SPECIFICALLY NOTED, HOWEVER, THAT HE WAS NOT RPT NOT HERE TO ASK THE AMBASSADOR "TO BRING PRESSURE ON THE GOI" IN THIS MATTER (AS PROPOSED BY V.P. RYAN), AND HE DOES NOT BELIEVE THAT PRECIPITATE ACTION BY CALTEX "WOULD SOLVE ANYTHING AT THE MOMENT."

2. LEVENHAGEN HOLDS THAT (1) THE CALTEX REFINERY IS STRATEGICALLY LOCATED IN INDIA (AT VISAKHAPATNAM, ANDHRA PRADESH), AND THUS IMPORTANT TO THE GOI (A CALTEX-IMPLEMENTED REFINERY SHUT-DOWN WOULD BE EXTREMELY DISRUPTIVE); (2) CRUDE SUPPLIES FROM CALTEX SOURCES ARE NEEDED; (3) THE FAVORABLE CRUDE PRICES FROM CALTEX ARE IMPORTANT TO THE GOI; AND (4) FOR POLITICAL REASONS, THE GOI WOULD NOT FAVOR EITHER AMANAGEMENT "TAKEOVER" OR NATIONALIZATION OF CALTEX AT THIS TIME. HE IS FULLY AWARE THAT THE "IS COMMITTED" TO AN EVENTUAL CONVERSION OF CALTEX TO THE PUBLIC SECTOR, BUT HE BELIEVES THE GOVERNMENT WILL MAKE EVERY EFFORT TO DO SO IN A MANNER SIMILAR TO ITS RECENT EQUITY SHARE PURCHASES OF ESSO. HE ALSO AGREES THAT CALTEX WILL BE EXPECTED TO WAIT FOR THE EVENTUAL OUTCOME OF A BURMAH-SHELL/GOI PURCHASE AGREEMENT.

3. ACCORDING TO LEVENHAGEN, ALL IMPORTED CRUDE REFINERIES OPERATING IN INDIA TODAY ARE LOSING MONEY BECAUSE OF THE EXISTING DISPARITY BETWEEN RETAIL SELLING PRICES AND THE COST OF CRUDE. IT FOLLOWS THAT RETAIL PETROLEUM PRODUCT PRICES SHOULD BE INCREASED TO RE-CREATE VIABILITY IN THE PETROLEUM INDUSTRY. INDEED, ALL RESPONSIBLE OFFICERS IN THE PETROLEUM MINISTRY ("AND PRESUMABLY IN THE CABINET AS WELL") ARE AWARE OF THE FINANCIAL (RUPEE) UNDER-RECOVERIES PLAGUING PRIVATE AND PUBLIC SECTOR ORGANIZATIONS ALIKE. DAVE AND OTHERS IN THE PETROLEUM MINISTRY REPORTEDLY AGREE THAT THE GOVERNMENT IS SOLELY RESPONSIBLE FOR THIS LONG-STANDING UNTENABLE SITUATION BY MONTH OR OR SO." LEVENHAGEN CONSTRUES THIS TO MEAN THAT RETAIL PRODUCT PRICE RISES MAY NOT BE APPROVED UNTIL, POSSIBLY, YEAR-END.

4. MEANWHILE, PUBLIC SECTOR REFINERY MANAGERS WILL BEMOAN LIMITED OFFICIAL USE

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PAGE 03 NEW DE 10583 091214Z

THEIR LOSSES, BUT MAY NOT OTHERWISE BE EXPECTED TO SUFFER (PUBLIC SECTOR LOSSES MAY, AFTER ALL, BE ABSORBED ELSEWHERE IN THE GOVERNMENT). THE PRIVATE SECTOR (NOW ONLY CALTEX AND BURMAH-SHELL) MUST, AS ALWAYS, SINK OR SWIM ON ITS OWN. AS FOR CALTEX, LEVENHAGEN CONTINUES TO HOPE FOR THE BEST. HE HAS REPEATEDLY PRESENTED HIS CASE TO THE GOI, AND HAS REPEATEDLY RECEIVED "SYMPATHY" ONLY. HE IS AT A LOSS TO DEFINE THE GOVERNMENT'S CURRENT RATIONALE OR FUTURE PLANS. HE ARGUES THAT "OF COURSE,

PRICE INCREASES ARE UNDESIRABLE BUT THE GOI NONETHELESS RECENTLY PERMITTED SIGNIFICANT INCREASES IN OTHER PRIORITY FIXED-PRICED COMMODITIES -- WHY NOT OIL?"

5. MR. LEVENHAGEN CONCLUDED HIS EXCEPTIONALLY GOOD PRESENTAION WITH A ASSURANCE THAT HEWOULD MEET WITH US AGAIN AFTER HE HAS DONETHE "HOMEWORK" HE FEELS IS REQUIRED IN THIS INSTANCE. HE SAID THAT HE WILL, AT THAT TIME, HAVE DATA TO SUPPORT ALL APPARENT OPTIONS OPEN TO CALTEX AND/OR THE CONCLUSIONS THAT AVAILABLE FACTS PRESEN.

6. COMMENT: THE PROBLEMS FACED BY CALTEX TODAY ARE NOT THE RESULT OF A BASIC DISPUTE BETWEEN THE GOI AND CALTEX (NOR IS THERE A KNOWN DISPUTE BETWEEN THE GOI AND BURMAH-SHELL); THEY ARE THE RESULT OF A PREDOMINENTLY INTERNAL POLITICAL ISSUE. THE MAIN DIFFICULTY SEEMS TO BE THE ALREADY-EXHORBITANT RETAIL PRICES OF MOST PETROLEUM PRODUCTS IN INDIA (DUE IN LARGE MEASURE TO HIGH PUNITIVE TAXATION) WHICH WOULD MAKE FURTHER INCREASES POLITICALLY UNDESIEABLE. CALTEX THUS SEEMS TO BE AN INNOCENT LOSER.

7. ALTHOUGH LEVENHAGEN SAID HE DID NOT HAVE A SPECIFIC REQUEST TO MAKE TO US AT THIS TIME, WE ARE NEVERTHELESS CONCERNED OVER THE LOSSES AND LIABILITIES HE CLAIMS CALTEX HAS INCURRED AS THE RESULT OF INEPT GOVERNMENT PLANNING. (EMBASSY CALCULATIONS GENERALLY AGREE WITH CURRENTLY -AVAILABLE CALTEX STATISITICS AND, APART FROM BROWWINGS, INDEED DO SHOW ALARMING LOSSES CREATED SOLELY BY RUPEE UNDER-RECOVERIES. CALTEX'S RUPEE INCOME IS NOT ADEQUATE TO MEET BOTH OPERATING EXPENSES AND THE PURCHASE OF DOLLARS FROM THE GOI FOR CRUDE OIL - FROM CALTEX SOURCES -FOR REFINING IN INDIA.) WE THEREFOR INTEND TO EXPRESS OUR GENERAL CONCERN TO THE GOI NOW. WE WILL FOLLOW UP WITH SPECIFICS ONCE CALTEX GIVES US THE NECESSARY DATA. END COMMENT.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, DEBTS, REFINERIES, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 09 AUG 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: cunninfx
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974NEWDE10583
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740218-0553
From: NEW DELHI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740860/aaaabzpe.tel
Line Count: 155
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: STATE 161942
Review Action: RELEASED, APPROVED
Review Authority: cunninfx
Review Comment: n/a
Review Content Flags:
Review Date: 16 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16-Aug-2002 by WorrelSW>; APPROVED <24 FEB 2003 by cunninfx>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CALTEX PROBLEMS IN INDIA
TAGS: BDIS, ENRG, IN, CALTEX
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005